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Banking in Nebraska: Part 1

Andrew Pitcher
Graduate Assistant, UN-L Bureau of Business Research

Nebraska commercial banks were ranked first of all states in terms of return on assets at the beginning of the decade. By 1985, however, Nebraska had fallen to 40th place among the states. Nebraska's ranking since has risen to 15th place in 1988. This paper provides an overview of changes in Nebraska commercial bank performance during the 1980s. It is the first in a series analyzing trends in Nebraska banking. The series of articles will provide some insight into changes in the economic viability and financial stability of Nebraska commercial banks in the 1980s. Savings and loan institutions are not included in the Federal Deposit Insurance Corporation (FDIC) data used and are not discussed. Future articles will focus on the savings and loan crisis and agricultural credit.

Contribution of the Banking Industry to Nebraska's Economy

The banking industry makes a vital contribution to the Nebraska economy in a number of ways. The industry directly employs persons and adds value to Nebraska's output. Banking also makes an indirect contribution to employment and state income though banks' use of ancillary businesses such as armored cars or computer installation and maintenance. The most important contribution of banking relates to its function. Banking provides a means of allocating resources to their most efficient use. Through banking, savings of individuals and firms are loaned to customers who use the funds to expand their businesses or enhance their quality of life. Without an efficient banking industry, the state's resources could not be allocated efficiently. It is difficult to measure the impact of an efficient banking industry. All too often, it has become painfully apparent that when a bank fails, the economic welfare of the community served by that bank also can be threatened.

The percentage of Nebraskans employed in commercial banking is relatively small, approximately 1.6 percent of the state's nonfarm workforce in 1988. Although the number of commercial banks in Nebraska is at about the same level it was two decades ago, the number of commercial bank employees rose over 60 percent to 10,823 full-time equivalent employees over the same period. The increase in bank employment reflects the rapid growth and structural change of the whole financial sector.

Nebraska Banking in Transition

The 1980s have been a period of transition for Nebraska banks. During the decade, the banking industry has faced

State Economic Scoreboard

Change from same month one year ago.
See Review and Outlook on page 8 for more details.

	State	Metro+	Nonmetro
Motor Vehicle Sales (May) Constant $	↑ 11.5%	↑ 13.5%	↑ 9.7%
Nonmotor Vehicle Sales (May) Constant $	↑ 4.2%	↑ 4.0%	↑ 4.3%
Building Activity (May) Constant $	↓ -12.3%	↓ -14.6%	↓ -8.9%
Employment (July)	↓ -0.8%	↓ -1.4%	↓ -0.1%
Unemployment Rate* (July)	↓ 3.4%	↓ 3.5%	↓ 3.2%

+Omaha and Lincoln. *Unemployment is this month's rate, not a percent change from year ago.

Figure 1
Return on Average Assets

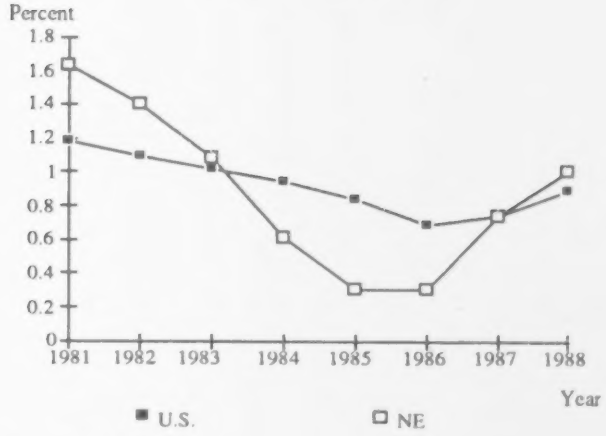
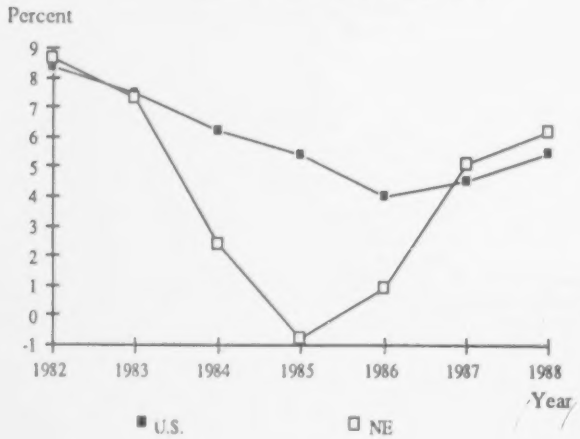


Figure 2
Retained Earnings to Average Total Equity



Source: FDIC

considerable change. The change has taken three basic forms:

*regulatory change,
*technological change, and
*economic structural changes.

Regulatory Change

Changes in the industry have been brought by changes in the way banks are regulated. Banking, traditionally one of the most regulated industries, has been deregulated in a move toward freer markets. Deregulation has brought changes in restrictions on banking activities, the geographic areas in which banks may operate, and reductions in controls on interest rates. The objective of banking deregulation was to allow a more competitive environment, thus improving the efficiency of the industry.

Technological Change

Information technology has advanced at an astonishing speed. Innovations in the area include the introduction of electronic banking and telecommunications. The result is faster and more accurate information systems.

Economic Structural Changes

Over the last decade, conditions in the agricultural, energy, and commercial real estate sectors have varied widely as the United States economy went through recession and then expansion. Commercial banks depend heavily on these sectors for lending and have had to adjust to changes in the structure of the economy.

Although Nebraska bank performance is influenced to a large extent by trends in the national economy, the structure of Nebraska's economy and state bank regulation will affect Nebraska bank performance. Given Nebraska's agricultural base and the prolonged recession of the agricultural industry in the 1980s, banks with a high degree of their loan portfolio in agricultural lending suffered greater losses.

These changes in regulation, technology, and economic structure affected Nebraska banking in several areas. Analysis of profitability, capital adequacy, lending, growth, and county banking patterns reveals several trends in Nebraska banking over the past decade.

Profitability Analysis

In evaluating a bank's performance, the return on average assets (ROA) ratio relates the profitability of the bank to the resources the bank controls. Figure 1 shows the ROA for Nebraska commercial banks over the period 1981 to 1988. The graph illustrates the sharp drop in Nebraska banking profitability, compared to national levels, that occurred in the mid-1980s. It appears that a recovery is now underway, with Nebraska banks earning an average ROA of over 1 percent. These earnings compare favorably to the 0.89 percent ROA for the nation's commercial banks during 1988. Factors contributing to the increase in Nebraska bank profitability include an increase in net interest and a reduction in overhead expenses. The increase in Nebraska bank profitability is mainly attributable, however, to a reduced provision for loan and lease losses.

There is a diverse range of bank ROA performance within the state. Table 1 presents the three year average return on average assets for Nebraska counties with commercial banks for the period 1986 to 1988. The metropolitan counties have not fared any better than the rural counties. Lancaster and Douglas counties ranked 38th and 42nd respectively over the period.

Another indicator of bank performance is return on average equity (ROE). ROE measures the percentage return a bank earns on an average stockholder's equity. ROE will vary with the extent that banks use debt financing. Therefore, a bank that has retained a large portion of its earnings may have a low ROE, but a high ROA. ROE for Nebraska banks rose on average to 7.5 percent in 1987 and 10.8 percent in 1988. ROE for Nebraska banks is broadly in line with national levels, despite Nebraska banks having a lower level of debt financing compared to other states.

It is also worth noting that the range of profitability between size categories has narrowed. In 1986, the ROA for Nebraska banks with assets between $0 and $25 million was 0.33 percent, compared to 0.58 percent for banks with assets between $25 million and $100 million, and 0.85 percent for banks with assets of over $100 million. In 1988, the comparable results were a ROA of 1.31 percent, 1.34 percent, and 1.17 percent respectively. The narrower range of bank profitability is proba-

bly due to the decreased number of smaller banks through merger or liquidation.

Capital Adequacy

A problem in the past for banks has been to retain sufficient capital. As profitability fell in 1985 and 1986, banks retained less of the income necessary to maintain their capital.

Without adequate capital, banks face the risk of being overexposed to debt financing, presenting greater risk to existing shareholders and depositors. Whereas shareholders' dividends may vary according to profitability, fixed interest payments are required even if the bank has an unprofitable year. Also, banks lose the advantage of being able to deduct the interest from their tax liability when there is no profit.

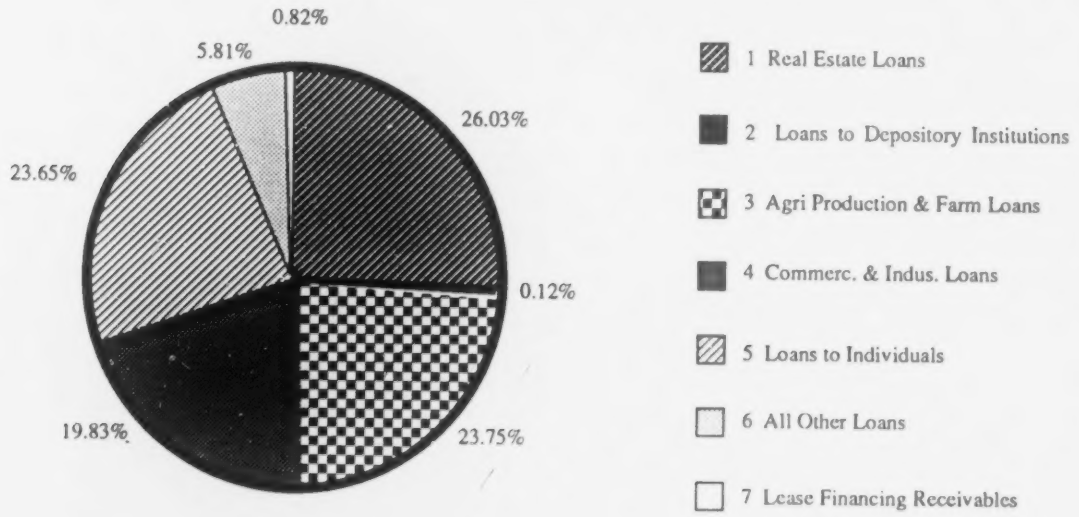
Figure 2 shows the percentage of retained eanings to average total equity. As a result of declining profitability, Nebraska banks' retained earnings fell dramatically between 1983 and 1985. In 1985 Nebraska commercial banks, on average, experienced negative retained earnings. Over the same period, Nebraska commercial banks were paying an extremely high level of dividends. A relatively high level of dividends in the face of low profit levels suggests that some Nebraska banks were using capital to pay dividends. Such a policy can be a damaging practice. By 1987, retained earnings to average total equity was back in line with national levels. Dividend payments

Table 1
Nebraska Commercial Banks Percentage Return on Average Assets
By County

COUNTY	1986	1987	1988	Three Year Average	Rank	COUNTY	1986	1987	1988	Three Year Average	Rank
Stanton	1.54	2.23	1.27	1.68	1	Perkins	0.69	0.56	0.82	0.69	47
Deuel	1.61	1.63	1.15	1.46	2	Dawes	0.02	0.68	1.36	0.69	48
Valley	1.33	1.53	1.33	1.39	3	Gage	0.28	0.87	0.89	0.68	49
Sherman	0.68	1.54	1.84	1.35	4	Madison	0.09	0.80	1.13	0.68	50
Colfax	0.79	1.60	1.53	1.31	5	Blaine	1.02	0.59	0.41	0.67	51
Holt	1.29	1.09	1.36	1.25	6	Hamilton	0.58	-0.07	1.39	0.63	52
Hooker	-0.69	1.98	2.28	1.19	7	Platte	0.37	0.56	0.97	0.63	53
Frontier	0.98	1.35	1.23	1.19	8	Sheridan	-0.13	0.42	1.58	0.62	54
Howard	1.19	1.12	1.10	1.14	9	Kearney	0.57	0.72	0.58	0.62	55
Butler	1.08	0.91	1.35	1.11	10	Dakota	0.27	0.79	0.74	0.60	56
Dundy	0.93	1.14	1.26	1.11	11	Richardson	0.94	0.33	0.51	0.59	57
Pierce	0.72	1.25	1.33	1.10	12	Custer	-0.06	0.66	1.17	0.59	58
Hayes	0.87	1.29	1.12	1.09	13	Nemaha	0.05	0.77	0.94	0.58	59
Cuming	0.99	1.15	1.08	1.07	14	Dodge	-0.41	0.71	1.43	0.58	60
Polk	0.91	0.97	1.33	1.07	15	Keya Paha	0.22	0.65	0.75	0.54	61
Greeley	1.06	0.95	1.12	1.04	16	Logan	1.24	1.32	-1.02	0.52	62
Burt	0.54	1.18	1.42	1.04	17	Cheyenne	0.13	0.26	1.10	0.50	63
Pawnee	0.41	1.20	1.50	1.03	18	Lincoln	-0.48	0.65	1.25	0.47	64
Cass	0.95	1.00	1.13	1.03	19	Thomas	-0.18	0.47	1.05	0.45	65
Nance	0.52	1.32	1.23	1.02	20	Nuckolls	-0.33	0.96	0.70	0.44	66
Franklin	0.75	1.20	1.04	1.00	21	Brown	0.57	-0.48	1.13	0.41	67
Knox	0.91	0.88	1.16	0.99	22	York	-0.35	0.32	1.22	0.40	68
Boyd	1.06	0.76	1.04	0.95	23	Clay	-0.19	0.50	0.83	0.38	69
Wayne	0.60	1.11	1.12	0.94	24	Hitchcock	-1.00	0.81	1.32	0.38	70
Hall	0.74	0.91	1.09	0.91	25	Red Willow	0.09	0.15	0.84	0.36	71
Cherry	-0.14	1.15	1.72	0.91	26	Garden	0.49	-0.01	0.39	0.29	72
Dixon	0.75	0.99	0.98	0.91	27	Harlan	-1.03	0.70	1.10	0.26	73
Seward	0.68	0.96	1.03	0.89	28	Sarpy	0.36	0.31	0.10	0.26	74
Otoe	0.39	1.06	1.19	0.88	29	Kimball	-0.63	0.35	1.00	0.24	75
Jefferson	0.77	0.58	1.28	0.88	30	Johnson	-1.29	0.68	1.32	0.24	76
Rock	0.34	1.12	1.12	0.86	31	Garfield	-0.94	0.71	0.93	0.23	77
Saline	0.59	0.89	1.07	0.85	32	Dawson	-0.10	-0.06	0.69	0.18	78
Merrick	0.28	1.12	1.12	0.84	33	Fillmore	-0.95	0.74	0.68	0.16	79
Cedar	-0.32	1.15	1.65	0.83	34	Thurston	-2.60	1.55	1.46	0.14	80
Boone	0.33	0.97	1.17	0.83	35	Keith	-0.03	-0.47	0.75	0.08	81
Buffalo	0.17	0.87	1.40	0.82	36	Gosper	-1.13	0.25	0.79	-0.03	82
Antelope	-0.02	1.00	1.45	0.81	37	Wheeler	-0.75	0.22	0.35	-0.06	83
Lancaster	0.77	0.66	1.00	0.81	38	Morrill	-2.54	0.74	1.45	-0.12	84
Adams	0.51	0.85	1.06	0.81	39	Chase	-0.53	-1.02	0.71	-0.28	85
Furnas	0.32	0.96	1.09	0.79	40	Box Butte	0.02	-1.45	0.40	-0.34	86
Washington	0.54	1.07	0.76	0.79	41	Scotts Bluff	-0.90	-0.02	-0.83	-0.58	87
Douglas	0.74	0.73	0.88	0.78	42	Banner	-2.10	0.68	-0.49	-0.64	88
Thayer	0.78	1.11	0.46	0.78	43	Grant	-3.10	0.22	-0.13	-1.00	89
Saunders	0.65	0.69	1.00	0.78	44						
Webster	0.60	0.91	0.80	0.77	45						
Phelps	0.08	1.27	0.89	0.74	46						

Note: This table includes only those counties with banks that filed reports with the FDIC in the years 1986, 1987, and 1988. Therefore, Loup, McPherson, and Sioux are not included

Figure 3
1988 Average Distribution of Lending Portfolio for Nebraska Banks



Percent

and retained earnings now have returned to a more conservative level.

Lending

The Nebraska banking loan portfolio contains a relatively high proportion of lending to the agricultural sector. The high proportion of agricultural lending reflects Nebraska's agricultural economic base. Dependence on agricultural lending for income is risky. Agriculture, by nature, always has been subject to wide income swings. Also, a bank loan portfolio that is geographically or structurally undiversified is risky.

Figure 3 shows the average distribution of the lending portfolio for Nebraska commercial banks in 1988. Nearly one quarter of the lending porfolio consists of agricultural production or farm loans. This contrasts with the national average, where only 1.7 percent of the lending portfolio consisted of agricultural lending in 1988. Nebraska commercial banks, on average, have reduced their agricultural lending considerably. In 1981, nearly 40 percent of the average lending portfolio for Nebraska commercial banks was devoted to agricultural lending.

Figure 4 shows a large reduction in the level of Nebraska commercial banks' loans and leases as a percentage of total assets over the period 1979 to 1988. Although the proportion of lending is still very low, it has been increasing in recent years.

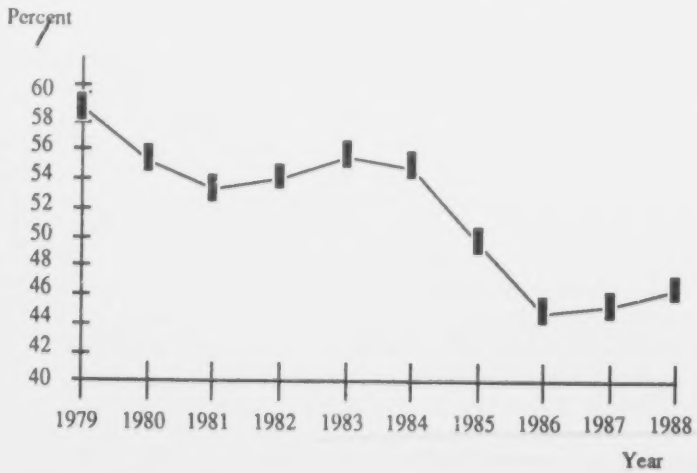
Growth

One major trend at the state and national level during the 1980s is a major slowdown in the rates of growth in the banking industry. The slowdown may represent a reaction to an unsustainable level of growth in the late 1970s. With banking deregulation, banks face stiffer competition for deposits. There also has been a reduction in the number of banks, from 461 in Nebraska in 1982 to 412 in 1988. Consolidation and liquidation have reduced the number of smaller banks.

Conclusion

Nebraska commercial banks are in a period of transition. Although the downturn in the agricultural economy has created difficulties for many banks, the outlook is brighter than a year or two ago, particularly for the smaller community banks. Changes in the structure of the banking industry have created an environment that, with fewer banks, is more competitive and efficient but, as evident from the variations in commercial bank profitability, less predictable.

Figure 4
Loans and Leases as Percent of Total Assets



Economic Growth Patterns in the Tri-Counties Region

James R. Schmidt
Associate Professor of Economics

Christine M. Tarsney
Undergraduate Research Associate

A leading example of a regional economic center in nonmetropolitan Nebraska is the county group of Adams, Buffalo, and Hall in the middle part of the state. Led by the flagship cities of Hastings, Kearney, and Grand Island, this area is the focal point of the central Nebraska economy. This county group also accounts for a significant portion of the state's economic activity.

This article examines growth patterns of the county economies in Adams, Buffalo, and Hall during the 1980s, a decade of severe agricultural and nonagricultural recessions followed by an unprecedented recovery in farm income. Comparisons of economic activity are made within the three county group and with the metro and nonmetro areas of Nebraska. Although the phrase *Tri-Cities* is popular for the region, the more general designation of *Tri-Counties* is used in this article. This inquiry is conducted at the county rather than city level because broad activity measures such as personal income, employment, and total retail sales are reported only on a county basis. Because the three leading cities of the region dominate their respective county economies, however, the analysis should be of interest even to parties whose primary concern is with city-specific trends.

The information given below shows that since 1980 the Tri-Counties region has lagged the metro area of Nebraska in the growth rate of all but two of the broad economic indicators studied. The metro area consists of Douglas, Lancaster, and Sarpy counties. Tri-Counties performance shows a mixture of leads and lags in the growth rates of the chosen indicators compared to nonmetro Nebraska; the region has outpaced nonmetro Nebraska on most fronts. Buffalo County emerges as the growth leader within the region in many of the indicators. Adams County consistently trails the other two counties, while Hall leads the region in several indicators but trails in others.

Personal Income and Population

Personal income is the most inclusive measure of economic activity available on a county basis. The latest year for which figures are available is 1987. Table 1 contains personal income histories of the Tri-Counties, the counties in the region, metro and nonmetro areas of Nebraska, and Nebraska. The income figures are in real terms (deflated by a price index to control the effects of inflation over the period). Only figures for 1980, 1984, and 1987 are given. The growth rates calculated for the 1980-1987 span are average annual growth rates.

The Tri-Counties region began the decade with a real personal income level of $1.237 billion, 6.9 percent of the state total. From 1980 through 1987, the region's income grew at an average annual rate of 1.3 percent, well below the growth rates of nonmetro and metro Nebraska. By 1987 the portion of statewide personal income garnered by the region had dropped to 6.7 percent.

A wide disparity of income growth rates occurred among the three counties of the region. Buffalo County enjoyed a comparatively strong growth rate of 2.4 percent, surpassing the rates of the the metro and nonmetro portions of the state. Hall and Adams trailed Buffalo in income growth, with rates of 1.2 percent and 0.6 percent, respectively. The level of income in Buffalo surpassed that in Adams in 1982.

Nonfarm income in the region grew at a paltry 0.4 percent rate on an average annual basis, far below the growth rates of the state and the state's metro area. The region outperformed nonmetro Nebraska, which declined slightly over the time span. Clearly, Nebraska's woes in the nonfarm economy during the 1980s have been concentrated in the nonmetro portion of the state. Although the Tri-Counties region has performed better than the balance of the nonmetro area, its position compared to the metro area continues to erode. Farm income growth has been the dominant force in moving the region forward (in real terms) and the exclusive force propelling nonmetro Nebraska.

Table 1
County and Area Personal Income and Population

	Adams	Buffalo	Hall	Tri-Counties	Metro NE	Nonmetro NE	State
Total Income (millions)							
1980	$366.3	$338.0	$532.6	$1,236.8	$8,374.0	$9,331.6	$17,705.6
1984	371.0	384.7	564.6	1,320.2	8,967.8	10,068.0	19,035.8
1987	380.0	395.7	576.4	1,352.0	9,567.0	10,499.7	20,066.6
AAGR*	0.6	2.4	1.2	1.3	1.9	1.8	1.8
Nonfarm Income (millions)							
1980	$341.2	$346.8	$534.4	$1,222.4	$8,353.5	$8,772.4	$17,125.9
1984	340.7	361.9	539.3	1,241.8	8,941.5	8,824.7	17,766.3
1987	342.2	366.4	543.0	1,251.7	9,522.0	8,707.8	18,229.8
AAGR*	0.1	0.8	0.2	0.4	1.9	-0.1	0.9
Per Capita Income							
1980	$11,909.0	$9,653.0	$11,121.0	$10,882.0	$12,353.0	$10,424.0	$11,255.0
1984	11,866	10,273	11,421	11,175	12,700	11,198	11,859
1987	12,505	10,781	11,824	11,672	13,287	12,008	12,585
AAGR*	0.7	1.7	0.9	1.1	1.1	2.1	1.6
Population							
1980	30,757	35,010	47,886	113,653	677,874	895,236	1,573,110
1984	31,262	37,445	49,436	118,143	706,149	899,098	1,605,247
1987	30,386	36,702	48,743	115,831	720,040	874,376	1,594,416
AAGR*	-0.2	0.7	0.3	0.3	0.9	-0.3	0.2

* - Average annual growth rate from 1980 through 1987
Source: Bureau of Economic Analysis, U.S. Department of Commerce

Buffalo County led the region's counties in nonfarm income growth, with an average annual rate of 0.8 percent. This figure was just below the state growth rate of 0.9 percent, but well below the metro growth rate. Hall and Adams generated growth rates of 0.2 and 0.1 percent, respectively.

The region's growth rate in real per capita income of 1.1 percent matched that of metro Nebraska, but lagged the state's growth rate of 1.6 percent and nonmetro Nebraska's growth rate of 2.1 percent. (For an interpretative note on per capita income, see the August 1989 issue of *Business in Nebraska*.) With the significant growth gap between the region and the state, per capita income in the region fell from 96.7 percent of the state level in 1980 to 92.7 percent in 1987. The equivalence of the Tri-Counties and metro growth rates reflects the metro area's higher growth rate in total income being balanced by a higher growth rate in population. 0.9 percent versus 0.3 percent in the region. The growth rate gap between the region and state remained at 0.5 percent in the move from total to per capita income, a result of the similar population growth rates in the two areas of 0.3 and 0.2 percent.

Buffalo County showed a markedly higher growth rate in per capita income of 1.7 percent than Adams (0.7 percent) or Hall (0.9 percent). Although Buffalo's rate slightly exceeded the state rate, Adams and Hall fell short of all the areas under comparison. Buffalo's good showing reflected the relatively strong growth rate in total income and a moderate growth rate in population. The circumstances in Adams County contrast starkly. There, a weak growth rate in total income was coupled with a population loss over the period. Even with the population decline, the growth rate in Adams' per capita income still fell short of the growth rate in Hall. Yet, Adams County historically has had a higher level of per capita income ($12,505 in 1987) than Hall or Buffalo ($11,824 and $10,781 in 1987, respectively). Even if the growth rate gaps of the 1980s are sustained, the dominance of Adams County among the trio in income level will be preserved for some time. The sluggishness of income growth, however, resulted in Adams slipping below the statewide level of per capita income in 1985.

While the dynamics of the region's population over the 1980-1987 period have been noted, recent developments on the population front deserve close scrutiny. Intercensal population estimates at the county level are subject to error, but the estimates for the region during the past several years have shown population declines in each of the three counties. All three showed successive losses in 1986 and 1987, with Buffalo showing a loss for 1985 as well. The population losses over the period were 900 for Adams, 743 for Buffalo, and 756 for Hall. The nonmetro portion of the state and the state as a whole experienced roughly the same pattern, while the metro portion showed low growth in population.

Labor Market

Labor force participation, number of employed persons, and job counts are among the standard measurements of an economy's labor market. The number of employed persons in a region is not the same as the number of jobs held. Employed persons are counted on a residence basis, while the number of jobs is counted on a place of work basis. Thus, nonresidents holding jobs in the region, residents holding multiple jobs in the region, or residents holding jobs outside the region all drive a wedge between the two bases of counting. More confusion results when observers use the term *employment* interchangeably in reference to both jobs and employed persons. In this article, the term is applied only to the latter count.

Table 2 contains information on the labor force (number of persons employed or unemployed but looking for work), employed persons, nonfarm jobs, and jobs in two leading industries: manufacturing and services. Average annual growth rates are for the 1980-1988 period.

The labor force in the Tri-Counties region has grown at a 1.1 percent ratedur-ing the decade to date, well above the no growth record of nonmetro Nebraska but short of the 1.9 percent rate in metro Nebraska. An additional 5,200 persons appeared in the Tri-Counties labor force over the time span, while the gain in population in the region over the 1980-1987 period was just short of 2,200. Thus, labor

Table 2
County and Area Labor Market

	Adams	Buffalo	Hall	Tri-Counties	Metro NE	Nonmetro NE	State
Labor Force							
1980	15,646	18,581	23,004	57,231	342,140	420,860	763,000
1984	15,545	18,938	25,974	60,457	365,249	430,751	796,000
1988	16,093	19,833	26,507	62,433	396,192	420,808	817,000
AAGR*	0.4	0.8	1.8	1.1	1.9	0.0	0.9
Employed Persons							
1980	15,172	18,107	22,093	55,372	327,711	404,289	732,000
1984	14,966	18,185	24,684	57,835	350,554	410,446	761,000
1988	15,628	19,170	25,374	60,172	382,771	405,229	788,000
AAGR*	0.4	0.7	1.8	1.1	2.0	0.0	0.9
Nonfarm Jobs							
1980	13,247	13,620	21,747	48,614	327,995	299,588	627,583
1984	12,710	14,314	21,965	48,989	346,139	289,230	635,369
1988	13,941	15,791	23,238	52,970	391,785	296,361	688,146
AAGR*	0.7	1.9	0.9	1.1	2.3	-0.1	1.2
Manufacturing Jobs							
1980	2,156	2,996	4,286	9,438	45,661	50,747	96,408
1984	1,967	3,090	4,732	9,789	43,951	46,550	90,501
1988	2,388	3,186	4,902	10,476	45,901	48,854	94,755
AAGR*	1.7	0.9	2.0	1.5	0.2	-0.4	-0.1
Services Jobs							
1980	2,709	2,263	3,500	8,472	68,053	47,922	115,975
1984	2,986	2,809	3,966	9,761	80,500	55,390	135,890
1988	3,480	3,335	4,154	10,969	99,131	59,404	158,535
AAGR*	3.2	5.0	2.2	3.3	4.8	2.7	4.0

* - Average annual growth rate from 1980 through 1988
Source: Nebraska Department of Labor

tion rates in the region have continued to increase, following the pattern of the state and U.S. labor markets. Hall County had the highest growth rate in the region at 1.8 percent, almost matching the metro rate. Buffalo and Adams lagged Hall by considerable margins.

Growth rates in the number of nonfarm wage and salary jobs exhibited patterns different from those of the number of employed persons. Hall County had a growth rate in jobs of just 0.9 percent, compared to its region-leading 1.8 percent growth rate in employed persons. Expansion of farm employment, decreases in multiple job-holding by residents, more travel outside the county to jobs, and relatively more employment in the form of proprietorships are possible influences that created the gap. Conversely, Buffalo County led the region in job growth with a 1.9 percent rate, adding almost 2,200 jobs over the period, while posting just a 0.7 percent growth rate in the number of employed persons. Job growth in the Tri-Counties region as a whole proceeded at a rate just slightly below that of the state, but well below that of metro Nebraska.

Manufacturing and services are examined in further detail—the former because it is a fundamental industry of the economic base and the latter because of its rapid growth during the 1980s. The region's growth rate in manufacturing jobs was a robust 1.5 percent, well ahead of the anemic rate of 0.2 percent in metro Nebraska. Declines in manufacturing jobs over the period occurred statewide and in nonmetro Nebraska. Hall County led the region with a 2.0 percent growth rate. Adams County sustained substantial losses in manufacturing jobs in the early years of the decade, but has rebounded strongly.

Nationally, services has been one of the primary growth industries in terms of jobs during the 1980s. The Tri-Counties region has been no exception, with service jobs growing at a 3.3 percent rate. This is well below the metro rate of 4.8 percent, but above the 2.7 percent rate of nonmetro Nebraska. A wide variety of growth rates appear in the region. Buffalo experienced a whopping 5.0 percent gain on an average annual basis. When this rate is viewed in tandem with Buffalo's overall nonfarm job growth rate of 1.9 percent, the tilt of the labor market toward services is apparent. New service jobs accounted for 1,072 of the increase of 2,171 nonfarm jobs in Buffalo between 1980 and 1988. An even greater dependence upon services for job growth was evident in Adams County. Total nonfarm jobs increased 694 between 1980 and 1988, but jobs in services jumped 771. Clearly, the job gains in services were required to offset losses of jobs in other industries. A different pattern emerged in Hall County, where manufacturing provided almost as much of the increase in job numbers as did services. Total nonfarm jobs rose 1,491—616 jobs in manufacturing and 654 in services. The economies of Adams and Buffalo have experienced a more pronounced tilt in the direction of service jobs than has Hall.

Table 3
County and Area Real Net Taxable Retail Sales
(Millions of Constant Dollars)

	Adams	Buffalo	Hall	Tri-Counties	Metro NE	Nonmetro NE	State
Total Sales							
1984	$171.4	$206.8	$346.3	$724.5	$4,281.7	$4,451.1	$8,732.8
1986	162.9	198.7	332.1	693.7	4,651.7	4,291.0	8,942.7
1988	174.7	230.5	364.0	769.1	4,753.8	4,654.4	9,408.3
AAGR*	0.7	3.0	1.4	1.7	2.7	1.3	2.0
Nonvehicle Sales							
1984	$151.6	$183.6	$312.2	$647.4	$3,772.9	$3,878.8	$7,651.7
1986	144.0	177.7	298.1	619.8	4,090.9	3,715.1	7,805.9
1988	153.7	204.5	328.4	686.6	4,212.7	4,000.5	8,213.3
AAGR*	0.5	2.9	1.4	1.6	2.8	0.9	1.8
Motor Vehicle Sales							
1984	$19.8	$23.2	$34.1	$77.1	$508.8	$572.3	$1,081.2
1986	18.9	21.1	34.0	74.0	560.8	575.9	1,136.7
1988	20.9	26.0	35.6	82.6	541.1	653.9	1,195.0
AAGR*	2.1	4.6	1.5	2.5	2.3	4.0	3.1

* - Average annual growth rate from 1984 through 1988
Source: Nebraska Department of Revenue

Net Taxable Retail Sales

The sales tax on food in Nebraska was suspended in October 1983, creating an artificial break in the history of net taxable retail sales figures. Analysis of growth in sales, therefore, is confined to 1984-1988. Table 3 contains the information on total, nonvehicle, and motor vehicle sales. All sales figures and average annual growth rates are in real terms.

Total sales in the Tri-Counties region have grown at a rate of 1.7 percent over the past five years, falling short of the 2.7 percent rate in metro Nebraska but exceeding the 1.3 percent rate of nonmetro Nebraska. After a decline from 1984 to 1985, region sales recovered steadily through 1988. Moderate growth marked the years of 1986 and 1987, while 1988 saw a spectacular growth rate of 9.7 percent. The region's superior performance to that of nonmetro Nebraska over the five year span was due to Buffalo County's vigorous growth rate of 3.0 percent. Hall County followed Buffalo with a 1.4 percent growth rate, but that performance still surpassed the rate in nonmetro Nebraska. Adams County did not fare well, posting just a 0.7 percent growth rate.

Growth patterns for nonvehicle sales repeated the patterns of total sales. In motor vehicle sales, a different pattern emerges in the comparison of region growth to other areas. The region's motor vehicle sales grew slightly faster than sales in the metro area. Motor vehicle sales in nonmetro Nebraska grew at an astounding rate of 4.0 percent, outpacing the metro area and the region. Rapid increases in the levels of farm income during the last few years created a surge in sales in the nonmetro area.

Buffalo County was the definite growth leader in motor vehicle sales, with a vigorous growth rate of 4.6 percent. Adams County's performance was substantially better in motor vehicle sales than in nonvehicle sales, but the county's growth rate still fell short of those in the broader geographic divisions. Hall County's growth rate of 1.5 percent in this sales category can only be regarded as sub-par in view of strong performances elsewhere.

Terms you should know

Nebraska Retail Sales Regions

For those readers who have had difficulty determining the retail sales regions in Figure III on page 11, the following definitions are presented.

Region Number	Counties in Region
1	Washington, Douglas, Sarpy
2	Lancaster
3	Dakota
4	Saunders, Cass, Otoe
6	Thurston, Cuming, Dodge, Burt
7	Johnson, Nemaha, Pawnee, Richardson
8	Butler, Seward, Saline
9	Polk, York, Fillmore
10	Boone, Nance, Platte, Colfax
11	Antelope, Pierce, Wayne, Madison, Stanton
12	Howard, Merrick, Hall, Hamilton
13	Adams, Clay, Webster, Nuckolls
14	Thayer, Jefferson, Gage
15	Buffalo, Kearney
16	Dawson, Frontier, Gosper, Furnas
17	Phelps, Harlan, Franklin
18	Hooker, Thomas, McPherson, Logan, Lincoln
19	Grant, Arthur, Keith, Perkins, Chase
20	Dundy, Hayes, Hitchcock, Red Willow
21	Kimball, Cheyenne, Deuel
22	Scotts Bluff, Banner, Morrill, Garden
23	Sioux, Dawes, Sheridan, Box Butte
24	Cherry, Keya Paha, Boyd, Brown, Rock, Holt
25	Knox, Cedar, Dixon

City retail sales in Table V on page 11 do not include motor vehicle sales. Motor vehicle sales are gathered by county and, hence, are included in region sales. The Nebraska total of the regions is the total taxable retail sales for the state. The Nebraska total for the city sales column is simply the total of the reported cities and, consequently, includes no motor vehicle sales.

John S. Austin

Nearly Three-Fifths of the Nation's 1988 High School Graduates Enrolled in College

According to the Bureau of Labor Statistics, 58.9 percent of the 2.673 million 1988 high school graduates enrolled in college by October. Nearly half of these freshmen were in the labor force. Approximately 100,000 of the high school graduates enrolled in vocational education courses.

High school drop-outs have not done so well. Of the 552,000 who dropped out between October 1987 and October 1988, only 59.2 percent were in the labor force. Furthermore, their unemployment rate was a dismal 26.7 percent.

John S. Austin

Review and Outlook

John S. Austin

National Economy

Recent evidence shows an economy stronger than expected even two or three months ago. Although there are some negatives in the latest data, the more important economic reports, such as GNP and personal income growth, show continued advances. The emerging picture is of a healthy economy with decreasing rates of inflation and low to moderate rates of real growth.

Orders in July displayed some weakness, while industrial production rose only slightly. Automobile sales responded to end of year discounting and announcements of substantially higher prices for 1990 vehicles. Housing starts were up again, and inflation rates cooled further. Consumer confidence, as measured by the Conference Board, is at a 20 year high.

There are now calls for further easing of monetary policy. Those making such calls feel that the current slow growth rates are not satisfactory. But an expansionist monetary policy at this point in the business cycle is inappropriate. Industrial capacity is tight. Expansion most likely will come in the form of price increases and not in the form of real production gains. Industrial production has leveled since the beginning of this year. Such a plateau is characteristic of an economy at the mature stage of a business cycle.

Gradual changes in monetary policy can lower interest rates and stimulate interest-sensitive sectors of the economy, such as the housing sector. Long-term interest rates have dropped, but not to the same extent as short-term rates. The savings and loan reorganization may confuse the mortgage market temporarily; even so, mortgage rates are now at a two year low.

Lower long-term mortgage rates already are affecting the housing scene. Housing starts advanced 0.8 percent in the month of July after rising 8.5 percent in June. In July, single family starts were 6.3 percent higher than in June. Single family starts had fallen 5.1 percent in May.

The second quarter real Gross National Product (GNP) growth was revised upward, from 1.7 percent to 2.7 percent—the economy was not as weak as reported originally. GNP growth rates were moderate, not robust.

Producing GNP estimates is a complicated procedure, and extensive revisions are common as new information is gathered on economic transactions. Revisions are sometimes so large that one cannot ascertain from initial reports whether the economy is expanding or contracting. Such circumstances serve as a reminder that a large basket of economic indicators must be monitored in order to track the progress of the economy accurately.

The GNP advances were supported by gains in personal income. July personal income figures advanced 0.7 percent over June. The June figure, in turn, was revised to show an increase of 0.5 percent over May. With inflation rates slowing, most of the recent gains in personal income will show advances in real purchasing power.

Once again Washington is battling over the deficit. The Congressional budget office has estimated that the 1991 fiscal year deficit will be $127 billion. The White House estimate for

the same period is $88 billion. Both projections are based on the assumption that Congress will implement the current 1991 budget accord it has with the White House. The difference between the projections is due to differences in underlying economic projections. The White House estimate assumes a higher expansion rate for the economy than the Congressional budget office. Furthermore, the White House budget director estimates the deficit will be $105 billion. The fiscal 1991 Gramm Rudman deficit target is $64 billion. Gramm Rudman targets only apply to the White House budget office projections. There is no penalty if the actual deficit is larger than the forecast deficit. Nevertheless, recent deficits have decreased, perhaps reflecting moral influences of the Gramm Rudman legislation.

On the inflation front, the Producer Price Index decreased 0.4 percent in July. Eliminating food and energy prices, the decrease was only 0.2 percent. Wholesale energy prices that only a few months ago were causing increases in inflation now are helping to reduce inflation rates. Similarly, the Consumer Price Index rose only 0.2 percent. Retail energy prices were down 0.7 percent, with gasoline prices decreasing 2.2 percent. Nevertheless, retail gasoline prices are still 15 percent ahead of year ago levels.

The unemployment rate is 5.2 percent, low by standards of a few years ago. Despite the healthy unemployment rate, the July Conference Board index of help wanted advertisements fell to the March 1987 level. These data indicate that employment is not expanding at rapid rates.

The industrial production index for July advanced 0.2 percent. Domestic automobile production was 6.0 million units, at annual rates, in July. In the previous month, auto production was 6.8 million units. The impetus behind the auto makers' August discounting campaign is clear. Durable orders in July were down 1.9 percent. Most of the decrease occurred in automobile and motor orders.

Business inventories increased 0.4 percent in June. The resulting inventory-to-sales ratio advanced to 1.51 in June, up from 1.50 in May and 1.49 in April. Although these changes are slight, they are in the wrong direction. A ratio at the current level is acceptable.

The USDA issued projections for grain harvests this year. Corn production is estimated to be 49 percent ahead of 1988

Table I
National Indicators

	Annual		Quarterly (SAAR)			
	1987	1988	1988:III	1988:IV	1989:I	1989:II
Real GNP (percent change)	3.7	4.4	3.2	2.7	3.7	2.7
Real Consumption (percent change)	2.8	3.4	3.3	3.0	2.0	2.2
Housing Starts (millions)	1.6	1.5	1.5	1.6	1.5	1.4
Auto Sales (millions)	10.3	10.6	10.4	10.5	9.8	10.3
Interest Rate (90 day T-bill)	5.8	6.7	7.0	7.7	8.5	8.4
Unemployment Rate (percentage)	6.2	5.5	5.5	5.3	5.2	5.3
Industrial Production Index (1977=100)	129.8	137.2	138.4	139.9	140.7	141.4
Money Supply, M2 (percent change)	6.6	5.1	3.8	3.6	1.9	1.3

Source: Bureau of Economic Analysis
NOTE: SAAR—Seasonally Adjusted at Annual Rates

Table II
Employment in Nebraska

	Revised June 1989	Preliminary July 1989	July % Change vs. Year Ago
Place of Work			
Nonfarm	716,743	707,841	3.1
Manufacturing	98,728	99,067	4.0
Durables	48,322	47,985	2.6
Nondurables	50,406	51,082	5.3
Mining	1,864	1,885	7.5
Construction	28,143	28,605	7.3
TCU*	47,602	47,680	4.7
Trade	184,073	183,528	3.2
Wholesale	53,094	52,892	4.4
Retail	130,979	130,636	2.8
FIRE**	49,511	49,317	2.4
Services	166,689	165,278	3.7
Government	140,133	132,481	0.5
Place of Residence			
Civilian Labor Force	820,265	823,985	-0.83
Unemployment Rate	3.6%	3.4%	

*Transportation, Communication, and Utilities
**Finance, Insurance, and Real Estate

Source: Nebraska Department of Labor

Table III
Price Indices

	July 1989	% Change vs. Year Ago	YTD % Change vs. Year Ago
Consumer Price Index - U* (1982-84 = 100)			
All Items	124.4	5.0	5.0
Commodities	117.0	4.9	5.1
Services	132.5	5.1	4.9
Producer Price Index (1982 = 100)			
Finished Goods	114.0	5.1	5.5
Intermediate Materials	112.6	4.1	5.8
Crude Materials	103.7	6.9	7.9
Ag Prices Received (1977 = 100)			
Nebraska	152	0.0	10.4
Crops	133	-5.7	29.0
Livestock	164	3.8	2.8
United States	146	3.5	11.1
Crops	134	0.8	18.1
Livestock	156	6.1	6.3

U* = All urban consumers
Source: U.S. Bureau of Labor Statistics

levels, soybean production 24 percent higher, and wheat production up 13 percent. USDA projects that Soviet grain production will be down 10 million metric tons and that Soviet imports will rise 3 million metric tons.

Nebraska Outlook

Nebraska's low unemployment rate continues. The July unemployment rate dropped to 3.4 percent, down from 3.6 percent in June.

Net taxable retail sales in May increased 10.9 percent from year ago levels. On a year-to-date basis, Nebraska retail sales are 9.2 percent ahead of year ago levels. All regions show positive year-to-date gains except Falls City with a scant decrease of 0.1 percent. If Falls City's latest month's gains of 9.1 percent continue, it will show a positive year-to-date figure. Ogallala leads the state with a 14.8 percent year-to-date gain in retail sales and an impressive 29.7 percent advance in May over the previous year. Tourism in Ogallala was at high levels.

Construction in Nebraska continues to advance. Year-to-date activity levels through July, as reported by F.W. Dodge, show that housing units started advanced 11.1 percent over last year. Total square footage of new buildings increased 9.7 percent on an accumulated basis through July. The total number of individual construction projects started is 12.4 percent higher through July versus year ago levels.

Technical Note

The Bureau annually updates its estimates of the seasonal factors for Nebraska net taxable retail sales that are used to calculate the seasonally adjusted data presented in Figure II. The Census X-11 method has been applied to the data and the results incorporated into this month's report. The result is a somewhat smoother series than previously reported. For technical reasons, the March seasonal factor was increased 3.8 percentage points. Minor revisions were made to the remaining seasonal factors.

John S. Austin

Table IV
City Business Indicators
May 1989 Percent Change from Year Ago

The State and Its Trading Centers	Employment (1)	Building Activity (2)
NEBRASKA	0.8	-7.6
Alliance	0.2	142.7
Beatrice	-0.2	-31.8
Bellevue	1.2	-25.2
Blair	1.2	471.1
Broken Bow	0.0	-62.8
Chadron	0.5	340.4
Columbus	0.4	27.2
Fairbury	1.1	-90.0
Falls City	-0.6	-52.0
Fremont	0.4	23.9
Grand Island	0.5	-21.9
Hastings	0.2	-14.4
Holdrege	0.0	1,133.5
Kearney	0.4	-74.4
Lexington	1.2	334.0
Lincoln	1.3	-11.5
McCook	0.8	-91.3
Nebraska City	0.0	-64.3
Norfolk	0.7	-15.0
North Platte	0.3	8.2
Ogallala	-0.2	-24.2
Omaha	1.2	-7.3
Scottsbluff/Gering	-0.3	120.9
Seward	0.4	-35.7
Sidney	0.8	-36.0
South Sioux City	0.6	345.7
York	-0.2	-25.4

(1)As a proxy for city employment, total employment (labor force basis) for the county in which a city is located is used

(2)Building activity is the value of building permits issued as a spread over an appropriate time period of construction. The U.S. Department of Commerce Composite Cost Index is used to adjust construction activity for price changes

Sources: Nebraska Department of Labor and reports from private and public agencies

Figure I
City Business Index
May 1989 Percent Change from Year Ago

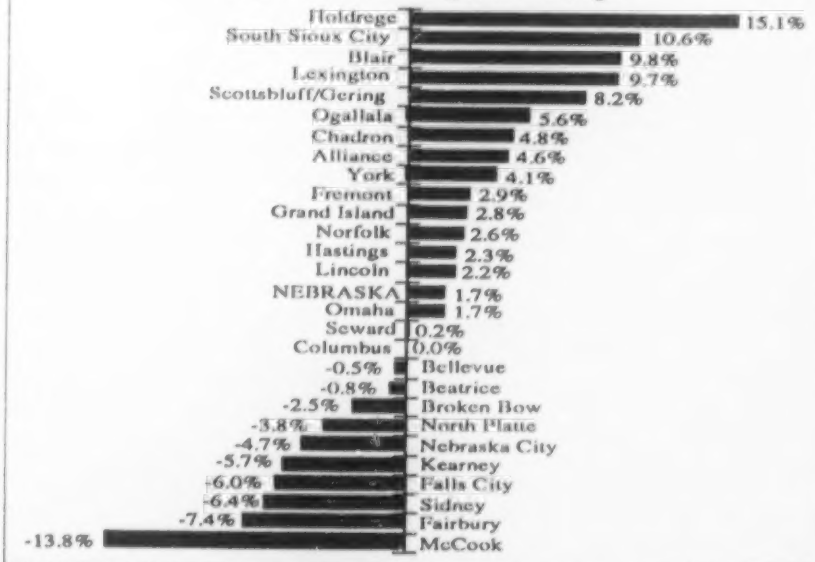
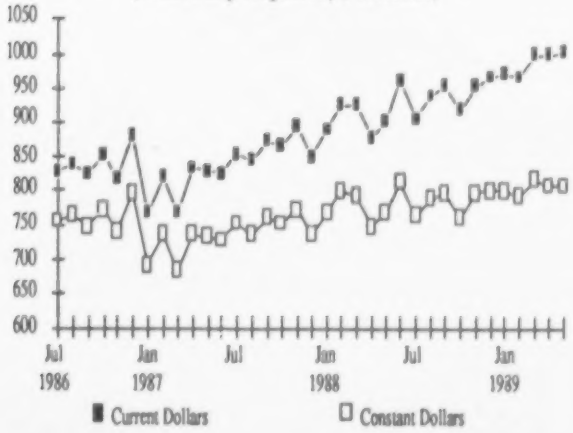


Table V
Net Taxable Retail Sales of Nebraska Regions and Cities

Region Number and City (1)	City Sales (2) May 1989 (000s)	City Sales (2) % Change vs. Year Ago	Region Sales (2) May 1989 (000s)	Region Sales (2) % Change vs. Year Ago	Region Sales (2) YTD % Change vs. Year Ago
NEBRASKA	$841,799	9.8	$992,705	10.9	9.2
1 Omaha	292,195	9.4	375,576	10.8	10.6
Bellevue	12,718	6.7	*	*	*
Blair	4,659	7.9	*	*	*
2 Lincoln	110,681	11.0	133,274	11.5	6.7
3 South Sioux City	4,504	13.2	6,633	10.6	0.3
4 Nebraska City	3,601	6.5	17,562	6.9	2.9
6 Fremont	15,939	9.9	29,515	11.0	4.4
West Point	2,578	5.3	*	*	*
7 Falls City	2,070	0.5	9,282	9.1	-0.1
8 Seward	3,925	10.9	14,499	17.7	4.0
9 York	6,570	19.2	15,192	12.7	13.1
10 Columbus	14,810	2.6	27,214	8.4	7.5
11 Norfolk	18,137	13.2	33,910	15.3	9.4
Wayne	2,870	12.1	*	*	*
12 Grand Island	33,714	14.7	48,583	14.2	10.8
13 Hastings	15,359	12.9	25,525	14.5	8.4
14 Beatrice	7,287	8.5	16,393	4.6	1.8
Fairbury	2,762	13.4	*	*	*
15 Kearney	18,060	7.4	26,308	9.2	10.9
16 Lexington	5,719	10.8	15,842	9.8	9.5
17 Holdrege	4,883	12.8	8,802	14.6	7.6
18 North Platte	15,211	-4.4	19,805	3.5	3.7
19 Ogallala	5,981	22.5	12,887	29.7	14.8
20 McCook	7,567	0.2	11,144	6.9	4.8
21 Sidney	3,698	-5.2	7,865	-0.5	6.1
Kimball	1,634	-11.1	*	*	*
22 Scottsbluff/Gering	17,513	16.5	25,420	18.2	12.6
23 Alliance	5,314	6.2	14,047	7.8	4.5
Chadron	2,562	-0.4	*	*	*
24 O'Neill	4,085	11.3	13,867	13.0	12.7
Valentine	2,413	4.3	*	*	*
25 Hartington	1,391	3.3	7,921	11.9	3.2
26 Broken Bow	3,468	11.3	11,458	6.8	6.8

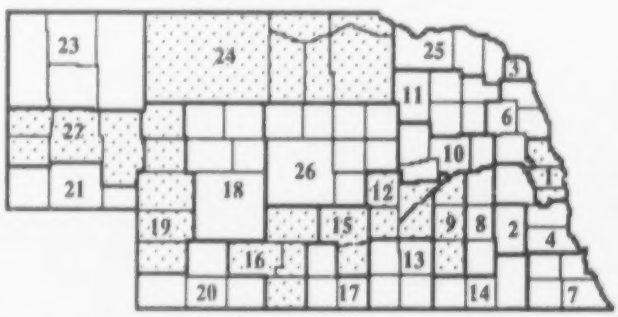
(1) See region map
(2) Sales on which sales taxes are collected by retailers located in the state. Region totals include motor vehicle sales
* Within an already designated region
Compiled from data provided by the Nebraska Department of Revenue

Figure II
Nebraska Net Taxable Retail Sales
(Seasonally Adjusted, $ Millions)



(1) The Consumer Price Index (1982-84 = 100) is used to deflate current dollars into constant dollars

Figure III
Region Sales Pattern
YTD as Percent Change from Year Ago



Shaded areas are those with sales gains above the state average. See Table V for corresponding regions and cities

Recommended Reading

Nebraska Farm Real Estate Market Developments 1988-89

Did you know that Nebraska's agricultural land values increased on average 24.9 percent in 1988? As impressive as that gain was, the February 1, 1989 state average value per acre of $432 was 42.2 percent below the 1981 peak average of $748. The greatest average value per acre of the eight reporting crop districts was $1,462 for gravity-irrigated land in the eastern district.

The greatest increase in value was 43.3 percent, reported in nontillable grazing land in the northern district. Furthermore, 45 percent of the surveyed transactions last year were cash sales. That information and more was gathered in a survey conducted by two University of Nebraska-Lincoln researchers.

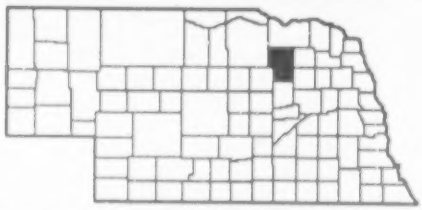
For your copy of *Nebraska Farm Real Estate Market Developments 1988-89, Report No. 161* by Bruce B. Johnson and Terry Akeson, write:

Agricultural Research Division
University of Nebraska-Lincoln
Institute of Agricultural
and Natural Resources
202 Agricultural Hall
Lincoln, NE 68588-0708

John S. Austin

County of the Month

Antelope



Neligh--County Seat

Size of county: 853 square miles, ranks 25th in the state
Population: 8,400 (estimated) in 1988, a change of -3.4 percent from 1980
Median age: 33.1 years in Antelope County, 29.7 years in Nebraska in 1980
Per capita personal income: $13,061 in 1987, ranks 69th in the state
Net taxable retail sales ($000): $33,271 in 1988, a change of +16.6 percent from 1987; $14,639 during January-May 1989, a change of +19.4 percent from the same period one year ago
Number of business and service establishments: 237 in 1986; 70.4 percent had less than five employees
Unemployment rate: 3.3 percent in Antelope County, 3.6 percent in Nebraska for 1988
Nonfarm employment (1988):

	State	Antelope County
Wage & salary workers	688,146	1,890
	(percent of total)	
Manufacturing	13.8%	6.8%
Construction and Mining	3.8	2.3
TCU	6.5	3.0
Retail Trade	18.5	21.5
Wholesale Trade	7.3	11.9
FIRE	7.0	5.6
Services	23.0	20.3
Government	20.1	28.6
Total	100.0%	100.0%

Agriculture:
Number of farms: 1,009 in 1987, 1,042 in 1982
Average farm size: 504 acres in 1987
Market value of farm products sold: $101.8 million in 1987 ($100,864 average per farm)

Sources: U.S. Bureau of the Census, U.S. Bureau of Economic Analysis, Nebraska Department of Labor, Nebraska Department of Revenue

Merlin W. Erickson

Business in Nebraska

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Association for University Business & Economic Research

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